



STATE OF CALIFORNIA

BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

NEWS RELEASE

04-04

Arnold Schwarzenegger, Governor

William P. Wood, Commissioner

FINAL
01/27/04

CONTACT: Kam Coveyou
916-327-6696

Department of Corporations Identifies Top 10 California Investment Schemes and Scandals for 2004

Sacramento, January 27, 2004 --- The Department of Corporations today identified the Top 10 securities schemes and scandals California investors are likely to encounter in 2004. The North American Securities Administrators Association has alerted investors to scams that are commonly seen throughout the United States, and the Department of Corporations wants investors to be aware of the investment scams that are most widespread and damaging to consumers and harm legitimate investment businesses within California.

Corporations' Commissioner William P. Wood advises potential investors to protect themselves from becoming the victims of fraud by doing their homework before making an investment. Californians should always contact the Department of Corporations before they invest to check the registration status of the investment they are considering and the licensing status of the person who is selling it. Bad actors in the financial marketplace prey on unsuspecting California consumers through both tried-and-true methods and new, ever-changing, and innovative approaches.

The following list of the Department of Corporations' Top 10 investment schemes in California for 2004 is based on the order of the scams' prevalence and gravity:

1. **Insurance Agent Securities Fraud:** While most independent insurance agents are honest professionals, too many are lured by high commissions into selling fraudulent or high-risk investments such as promissory notes, ATM and payphone investment contracts, and viatical settlements. In 2003, the Department of Corporations issued Desist and Refrain orders against several insurance agents involved in the offer and sale of viatical investments, and to over 60 other agents who sold promissory notes, real estate investment agreements and investment contracts. None of the individuals was licensed to sell these securities in California, nor had the Department of Corporations issued a permit or other form of qualification authorizing the sale of these securities.

2. Senior Investment Fraud: Many older consumers have considerable retirement savings and are trusting in nature, making them a favorite target of scammers. Volatile stock markets, low interest rates, rising health care costs and increasing life expectancy have combined to create a “perfect storm” for investment fraud against senior investors.
3. Variable Annuities: Annuities are insurance contracts with tax-deferred earnings. Most states do not define annuities as securities, and in California, the Department of Insurance has jurisdiction over the sale of annuities. A common method of sales that Californians should be wary of is through free financial planning seminars aimed at seniors, where sales people often employ bait-and-switch and other aggressive sales tactics to sell variable annuities.
4. Mutual Fund Business Practices: Ongoing scandals demonstrate that some in the industry are putting their own interests ahead of mutual fund shareholders. State and federal investigations have uncovered sales contests where investors have been steered to funds paying higher commissions to brokers, abusive trading practices such as “market timing,” and illegal trading practices, including “late trading.”
5. Ponzi Schemes: These swindles promise high returns to investors, but the only people who consistently make money are their operators, using money from previous investors to pay new investors until the schemes inevitably collapse.
6. Promissory Notes: These notes are short-term debt instruments issued by little-known or sometimes non-existent companies that promise high returns with little or no risk. Promissory notes are often sold to investors by independent life insurance agents.
7. Affinity Fraud: Many scammers use their victim's religious or ethnic identity to gain their trust, knowing that it's human nature to trust people with common backgrounds. The Department of Corporations has noticed a recent increase in the number of scams perpetuated by people who approach their fellow church members with fraudulent investment schemes.
8. Viaticals: Individuals sell the death benefits in their life insurance policies at a discount so they can get cash to use during the remainder of their lives, and the viatical settlement investor receives a portion of the death benefits when the insured person dies. These are highly risky investments, and there is also a great risk of fraud.
9. Oil and Gas Investments: The Department recently issued a Desist and Refrain order against Ram Energy Incorporated for selling approximately \$10 million worth of unqualified, nonexempt securities. The securities were in the form of limited partnerships

that were created with the objective to purchase working interests in oil and gas leases, among other things.

10. Broker-Dealers/Registered Representatives: In late 2003, the Department of Corporations filed civil complaints against two broker-dealers and their registered representatives for violating securities laws and regulations by failing to supervise a registered representative of the company who misappropriated over \$2 million of client funds, and for excessive trading, or “churning,” which was revealed by a routine regulatory examination by the Department.

The Department of Corporations is California's Investment and Financing Authority, reporting to the Business, Transportation and Housing Agency and the Governor. The Department is responsible for the regulation, enforcement and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending and residential mortgage lending. For further information or to obtain a complaint form, see the Department's Web site at www.corp.ca.gov or call 1-866-ASK-CORP (1-866-275-2677).

###